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China–Pakistan Economic Corridor: Five Years On

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SYNOPSIS

The CPEC provides China a strategic access to the Arabian Sea and lucrative projects for its companies. Pakistan needs Chinese technology to upgrade its infrastructure, especially the energy sector, but the CPEC has also increased Pakistan's fiscal instability as well as Opposition demands for transparency.

COMMENTARY

IN 2015, China and Pakistan forged strategic links with the signing of the China-Pakistan Economic Corridor (CPEC) agreement. This major tie-up provides Beijing with vital access to the Arabian Sea, while adding an extension to China's Belt and Road Initiative (BRI).

Pakistan, on its part, benefits economically from the CPEC as it connects to about 58 projects worth about US$62 billion: eight projects to develop Pakistan's Gwadar port, city and airport in Baluchistan, 21 coal, hydro and solar power plants, power transmission lines, highways, railways and a fibre optic cable project. China saw an economically prosperous and stable Pakistan as politically advantageous and wanted to create a geostrategic connectivity corridor from its resource-rich Muslim Xinjiang province to Pakistan's Gwadar city and port.

CPEC 2.0

Gwadar is strategically important because of its closeness to the Strait of Hormuz, the junction of vital international sea shipping routes. For China, the construction and administration of coal-fired power plants within CPEC were good alternative business opportunities for its state-owned enterprises abroad at a time when coal-fired power in China plant projects are being scaled down because of President Xi Jinping's stronger focus on sustainable power supply.

The previous Nawaz Sharif government and the present Imran Khan-led administration hoped that projects with Chinese technological know-how and money would help upgrade Pakistan's industrial infrastructure and revitalise its economic development. Pakistan's perennial power shortages and power transmission losses have been major challenges for every Pakistani government.

CPEC power plants were to provide a fast remedy. At Pakistan's request China's investments were predominantly in coal power plants. A tax-free Gwadar deep sea port was expected to turn it into a trade and transport hub.

Before his election in 2018, Prime Minister Khan pledged to renegotiate CPEC projects. However, the majority of projects was continued. PM Khan recently pledged "to complete CPEC at any cost" when he launched the second phase of the megaproject dubbed CPEC 2.0 in mid-2020. He also increased the military's role in the CPEC governance when he appointed retired army general Asim Bajwa as chairman of the newly created CPEC Authority.

Bajwa was tasked to push ahead with stalled CPEC projects. Even though Pakistan managed the COVID-19 pandemic comparatively well, its economy suffered. Work on CPEC has resumed since June 2020. In spite of Pakistan's problematic fiscal situation, new contracts were recently signed for two hydropower and the Mainline1 railway projects worth $11 billion.

In July, a controversial CPEC Authority Bill was introduced, granting the military comprehensive powers and reducing the role of civilian government. In spite of recent corruption allegations against Gen. Bajwa, PM Khan retained him as CPEC chairman.

Progress and Problems

Information on the progress of CPEC projects is opaque. Some projects have been subdivided into different stages, some shelved or are still without financial closure. PM Khan claims "substantial progress". Observers guess that a quarter of the projects have been completed, among them nine power projects (worth $7.9 billion).

Nine projects (worth $9.5 billion) are being constructed (four coal power, four renewable energy plants and a coal mine). The Gwadar projects are advancing, the Lahore Metro line and part of the Peshawar-Karachi Motorway have been completed.

Pakistan faces a vicious cycle of high debt liabilities. Its total debt and liabilities surged to 106% of GDP in 2020 since PM Khan took office. Domestic debt has risen by 35% to about $135 billion. Its foreign reserves have been falling to a low of $13 billion. Its GDP contracted by 2.8 per cent in 2019/20.

In 2019 the International Monetary Fund (IMF) approved a $6 billion loan but demanded "decisive fiscal consolidation to reduce public debt". In March 2020, PM Khan asked China for a moratorium on its loans to mitigate the economic impact of the pandemic.

China announced on 7 June 2020, a suspension of debt repayment for 77 developing countries, including Pakistan, under the G20 Debt Service Suspension Initiative until December 2020. Pakistan also borrowed $1 billion in 2020 from China to refinance a $6.2 billion loan it had secured from Saudi Arabia in 2018. \

Pakistan received $4.2 billion from the IMF, ADB, World Bank and Asian Infrastructure Investment Bank to tie it over the COVID-19 situation. It is estimated that Pakistan owes China between $22 and $30 billion, constituting the largest portion of its external debt it owes to one country. A dangerous debt spiral is looming.

Shifting from Oil to Coal

The Sharif government's decision to switch from oil to coal was problematic. Some 70% of all the CPEC power plant projects are coal-based. Coal usage is projected to rise from five million tonnes in 2015 to 15 million in 2020, and imports will also rise. Pakistan's commitment to reduce greenhouse gases under the Paris Agreement will be difficult to achieve. This coal focus contrasts with China's newly proclaimed sustainability policy at home. China continues to be involved in coal power plants in its neighbourhood.

Most CPEC power plants are based on the Chinese BOOT "build, own, operate, transfer" model. Chinese ownership will be transferred to the Government of Pakistan after 30 years of operation. This raises transparency and accountability questions. Following recent electricity price hikes, a government committee, set up in August 2019, reviewed the role of Independent Power Producers (IPP).

It recently found serious "malpractices" by IPPs like inflated operating costs and high annual profits. Pressure is mounting on Pakistan's PM Khan by the newly founded opposition "Pakistan Democratic Movement" to ensure efficacy of CPEC projects.

For years, Baluchistan separatists and insurgents have been fighting the government. CPEC projects have become targets and are increasingly unpopular among the Baluchistan population. The Pakistani Army launched major security operations but seems to have been rather heavy-handed in its approach. Alleged extrajudicial arrests by the military have resulted in a loss of confidence in the government.

Five years after the start of CPEC, Pakistanis demand greater transparency and accountability. It is in the mutual interests of both governments to ensure that tangible benefits reach the Pakistani population soon and that greater transparency is achieved. Pakistan's fiscal and economic woes, compounded by the effects of the pandemic, do not leave much room for manoeuvre.

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